

GOVERNOR'S FOREWORD



The start of the year 2022 continued to be characterised by the effects of pandemic-related restrictions, and the hope that the related supply shortages and surge in inflation would be short lived. This was not to be as another storm with yet more tragic human consequences and new challenges for policy making broke out.

Russia's war in Ukraine, which started in late February, brought with it new supply disruptions along with an energy crisis. As soaring energy and other commodity prices spread through the

economy, inflation reached new highs, with some price components posting double-digit growth. In the euro area, consumer price inflation, as measured by the Harmonised Index of Consumer Prices (HICP) reached 8.4% on average last year, the highest rate in the history of the single currency. Central banks in other advanced economies experienced similar developments.

Malta was no exception. However, the Government's decision to keep energy prices stable has helped keep overall inflation in Malta below that in the euro area. This notwithstanding, HICP inflation averaged 6.1% for the year, with price increases becoming more widespread over time, mirroring dynamics observed in the euro area.

Successive ECB projections continue to point to above target inflation rates until 2025. Monetary policy inevitably had to respond with resolve. For the first time since 2011, the Governing Council of the ECB increased policy rates, four times during the year. Such rate increases are unprecedented, in terms of both size and speed. The Governing Council has also taken the first steps towards unwinding the large monetary-policy related holdings of securities accumulated during the previous easing cycle, while reducing the exposure to long-term financing operations.

The tightening monetary stance in the euro area and in other advanced economies has weighed negatively on certain elements of our financials. Our primary aim remains that of bringing inflation closer to the policy aim of 2% in the medium term. The Governing Council remains committed to this objective and will take whatever action it deems appropriate in light of incoming information.

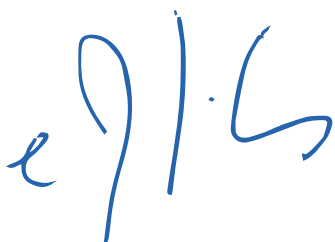
However, uncertainty remains high and while the resilience of the euro area economy, as well as that of the Maltese economy, to recent economic shocks is welcome the financial turbulences that arose outside our shores after this Report was finalised also highlight the

speed with which economic and financial market conditions can change. We must likewise keep a tab on longer-term forces affecting the economic and financial systems, such as climate change and population ageing, which also have a bearing on the economy's potential output and inflation. Constant vigilance and flexibility thus remain of the essence.

It is with this perspective that in 2022, the Central Bank of Malta has taken further steps to upgrade its information and payments messaging infrastructure and ensuring they remain resilient to external threats, while also investing in a modern Treasury Management system. Further steps were taken to align investment practices with sustainable and responsible criteria, while the share of green, social and sustainable bonds in own managed portfolios increased.

The Bank has also established monitoring procedures with new datasets as well as new analytical and modelling capabilities, while engaging closely and regularly with various international institutions, as well as local authorities and the private sector. While this effort is expected to continue, I would also like to reiterate the Bank's commitment to share the results of its analyses. New techniques are being explored to present certain results in a more accessible way to different audiences.

On behalf of the Board of Directors, I would like to thank the Bank's staff for their continued efforts in navigating another challenging year and am confident that together we will realise the various projects we have identified for the year ahead.



Professor Edward Scicluna